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Supreme Court, U.S.
FILED
OCT 9 2001
CLERK

No. 01-408

IN THE

Supreme Court of the United States

THE HOLMES GROUP, INC.

Petitioner,

--- v. ---

VORNADO AIR CIRCULATION SYSTEMS, INC.,

Respondent.

On Petition For Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

BRIEF IN OPPOSITION

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QUESTION PRESENTED

The question presented is whether the United States Court of Appeals for the Federal Circuit is correct in exercising jurisdiction over an appeal of a non-patent issue in a case having a pending patent counterclaim from a United States district court.

STATEMENT PURSUANT TO RULE 29.6

Respondent Vornado Air Circulation Systems, Inc. ("Vornado") has no parent companies, subsidiaries, or affiliates that have issued shares to the public.

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BRIEF IN OPPOSITION

Respondent Vornado Air Circulation Systems, Inc. ("Vornado") respectfully requests that this Court deny the Holmes Group's petition for writ of certiorari seeking review of the Federal Circuit's decision in this case.

OPINIONS BELOW

The opinion of the Federal Circuit is unreported and is attached to Holmes's Petition at Appendix A. The opinion of the United States District Court for the District of Kansas is reported at 93 F.Supp.2d 1140 and is attached to the Petition at Appendix B.

STATEMENT OF THE CASE

In 1989 Respondent Vornado began selling its distinctive household fans, which have a uniquely designed, removable front grill structure with spiral (arcuate) vanes. In May 1990, Vornado obtained a utility patent (later re-issued as U.S. Patent No. Re. 34,551 (the "'551 patent")) claiming a ducted fan with multiple elements, one being a spiral grill that is removable. The grill alone was not patented.

In 1999 Vornado discovered that Petitioner Holmes had been importing from China and distributing its BLIZZARD fan, which incorporates a spiral grill that looks identical to Vornado's distinctive spiral grill. Vornado concluded that Holmes's fans both infringe the claims of Vornado's patent and violate Vornado's trade dress.

In an effort to prevent further importation of the infringing fans, on November 26, 1999 Vornado filed a complaint with the United States International Trade Commission ("ITC"), pursuant to § 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337. Vornado's complaint alleged both patent and trade dress infringement and requested that the ITC initiate an investigation of Holmes's importation activities with respect to Holmes's fans and other products. Vornado submitted patent claim charts showing Holmes's infringement of Vornado's patent on an element-by-element basis. The ITC instituted its investigation on January 21, 2000.

In an attempt to get the case into the tenth circuit, Petitioner Holmes commenced a district court action against Vornado in the U.S. District Court for the District of Kansas. Holmes filed its complaint on December 8, 1999, two weeks *after* Vornado filed the ITC action. Holmes filed suit seeking a declaration that Holmes's sale of its products do not infringe Vornado's asserted trade dress in its spiral grill on the ground that the ruling in *Vornado Air Circulation Systems, Inc. v. Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995)("*Vornado I*") collaterally estops Vornado from asserting protectable trade dress rights in the spiral grill design.

Vornado counterclaimed in the district court, raising the same allegations of patent and trade dress infringement that Vornado had raised in its earlier ITC complaint.

Petitioner Holmes alleges that Vornado's assertion of the patent counterclaim in the district court was an attempt to steer any appeal to the Federal Circuit, yet Holmes conveniently omits any mention to this Court that Vornado's patent counterclaim was *compulsory*. Further, Holmes fails to inform this Court that Vornado's patent and trade dress infringement claims had *already been asserted* against Holmes at the International Trade Commission before Holmes filed its district court action regarding only trade dress infringement.[1]

The district court applied the principles of collateral estoppel to grant summary judgment on the issue of trade dress infringement in favor of Holmes. Yet in its opinion, even the district court recognized that "the Federal Circuit has exclusive jurisdiction over an appeal from a final judgment of a district court if the district court's jurisdiction is based in whole or in part on a patent claim." *The Holmes*

[1] Any "manipulation" of the appeal process would therefore appear to be on the part of Holmes, who filed a district court case on only the trade dress issues in the 10th Circuit, and then requested a stay of the ITC action. Appeals from the ITC are sent to the Federal Circuit. 28 U.S.C. § 1295(a)(6).

Group, Inc. v. Vornado Air Circulation Systems, Inc., 93 F.Supp.2d 1140, 1143 (D. Kan. 2000).

Vornado appealed the district court's partial final judgment to the United States Court of Appeals for the Federal Circuit (Appeal No. 00-1286). During the appeal to the Federal Circuit, Vornado did not have the resources to simultaneously litigate at the ITC, but, aware of the ITC's obligation under 19 CFR § 210.51(a) to resolve cases quickly, Vornado did not seek a stay of the ITC action. Instead, Vornado entered into partial settlement with Holmes, whereby Vornado withdrew the ITC case with the understanding that it would seek reinstitution of the investigation if the Federal Circuit ruled in Vornado's favor.

On June 5, 2001, the Federal Circuit vacated the judgment of the district court, and remanded the case for proceedings in light of the recent decision of this Court in *Traffix Devices v. Marketing Displays, Inc.*, 121 S.Ct. 1255 (2001). Holmes then petitioned this Court for writ of certiorari.

REASONS FOR DENYING THE PETITION

I. THE ACTIONS OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT ARE IN CONFORMITY WITH THE DECISIONS OF THIS COURT AND OTHER UNITED STATES COURTS OF APPEALS ON THE SAME MATTER

A. The Federal Circuit's exercise of jurisdiction over the appeal accords with this Court's precedent.

Petitioner Holmes asserts that the Federal Circuit, in exercising jurisdiction over Vornado's appeal (No. 00-1286),

has become a renegade court that fabricates its own version of the law and rules of procedure. Contrary to Petitioner's characterization that the Federal Circuit has departed "from an unbroken line of this Court's decisions spanning nearly a century," the Federal Circuit's jurisdiction over the appeal adheres to the sound reasoning of this Court and the other circuit courts of appeals. In fact, the Federal Circuit has previously addressed the very issue for which Holmes petitions this Court, and in doing so, the Federal Circuit sought guidance from this Court's prior rulings. In *Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd.*, 895 F.2d 736 (Fed. Cir. 1990), the Federal Circuit addressed the following issue:

> In light of *Christianson v. Colt*, 486 U.S. 800 (1988), does this court have jurisdiction to hear an appeal in a case in which the district court's jurisdiction over the complaint was not based on §1338(a) but there is a counterclaim over which the district court would have §1338(a) jurisdiction if the counterclaim had been a complaint?

Id. at 738. In resolving the above question in the *Aerojet* case, the Federal Circuit thoroughly analyzed this Court's decision in *Christianson*.[2] The Federal Circuit found that *Christianson* dealt with the effect on jurisdiction of patent law issues raised only as a *defense*, and no patent claims appeared in the complaint or in any counterclaim. *Christianson* was clearly distinguishable on its facts from *Aerojet*, where the complaint in *Aerojet* did not allege any patent issues, but the defendant's compulsory counterclaims

[2] Holmes implies that the Federal Circuit discounts the law set forth in *Christianson*. However, the law of *Christianson* was originally that of the Federal Circuit. This Court "reached the same conclusion" as the Federal Circuit in *Christianson v. Colt Indus. Operating Corp.*, 822 F.2d 1544, 1552-3, (Fed. Cir. 1987). *Aerojet-General Corp.*, 895 F.2d at 741.

did include claims of patent infringement. In *Aerojet*, the Federal Circuit indicated a need to clarify its jurisdiction under the distinct circumstance in which the patent laws constitute the basis of a nonfrivolous compulsory counterclaim. *Id.* at 741. After analyzing the "well-pleaded complaint rule" and the legislative history of 28 U.S.C. §1295, the Federal Circuit held:

> Because [defendant's] compulsory counterclaim for patent infringement is a separate, nonfrivolous claim, having its own section 1338 jurisdictional basis independent of the jurisdictional basis of the complaint, the district court's subject matter jurisdiction in this case was based "in part" on section 1338. Accordingly, this court would have appellate subject matter jurisdiction over an appeal from a final judgment in this case, 28 U.S.C. §1295. . . .

Id. at 745. Further, a comment by Justice Stevens in his *Christianson* concurrence is particularly supportive of the Federal Circuit's exercise of jurisdiction based upon a counterclaim: "the 'well-pleaded complaint' rule helps ferret out claims from issues, and says nothing about whether such separation should be made only on the basis of the original complaint." *Christianson*, 486 U.S. at 820 n. 1 (Stevens, J., concurring).

Petitioner Holmes also alleges that the Federal Circuit circumvents this Court's rulings in other cases. Yet Holmes consistently presents out-of-context statements and fails to acknowledge the significance of the procedural questions at issue in those cases. The decisions cited by Holmes relate to this Court's long standing precedent regarding removal jurisdiction, in particular state cases being removed to federal court. For example, Holmes cites *Franchise Tax Board v. Construction Laborers Vacation Trust*, 463 U.S. 1 (1983), as support for Holmes's proposition that the Federal Circuit improperly considered a counterclaim as sufficient to

find that the civil action "arises under" federal patent law. Holmes misleadingly states that the *Franchise Tax* Court held that it "simply is not the law" to consult the answer as well as the complaint in determining whether a case arises under federal law. Holmes Br. at 9. That holding, however, is incorrect. In fact, to "create" this holding Holmes *added its own language* to dicta in a footnote. The complete text actually *supports* the actions of the Federal Circuit:

> It is possible to conceive of a rational jurisdictional system in which the answer as well as the complaint would be consulted before a determination was made whether the case "arose under" federal law, or in which original and removal jurisdiction were not coextensive.

Franchise Tax, 463 U.S. at 10 n.9.

Franchise Tax and other cases cited by Holmes address the issue of removal jurisdiction.[3] As the Federal Circuit determined, the issue of removal is clearly distinguishable from a case that is already in federal court. Citing *Franchise Tax*, the Federal Circuit stated that the basic purpose of the well-pleaded complaint rule is to avoid "'potentially serious federal-state conflicts.'" *Aerojet-General Corp.*, 895 F.2d at 743 (citing *Franchise Tax*, 463 U.S. at 10). But "no such conflicts are possible here, where we deal only with the direction of an appeal in a case already properly in the federal court system." *Id.* at 743-744. In our case, the facts are in line with *Aerojet*, where Holmes filed its complaint in federal district court, and Vornado properly appealed to the Federal Circuit based on the pending patent infringement counterclaim.

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[3] Other "removal" cases cited by Holmes include *Caterpillar Inc. v. Williams*, 482 U.S. 386 (1987), *Great Northern Ry. Co. v. Alexander*, 246 U.S. 276 (1918), and *Merrell Dow Pharm. Inc. v. Thompson*, 478 U.S. 804 (1986).

Far from being a renegade appellate court, the Federal Circuit has carefully reviewed the prior decisions of this Court regarding appellate jurisdiction, and has concluded:

> In all events, the Supreme Court did not hold in *Christianson*, or in any other case, that for all cases and circumstances only the complaint and never a counterclaim can serve as the basis of district court jurisdiction, and, under section 1295, the basis of district court jurisdiction is for this court an appeal-directing mechanism.

Aerojet-General Corp. 895 F.2d at 742. This conclusion is certainly relevant to Holmes's petition before this Court.

Because the Federal Circuit's exercise of jurisdiction followed the law of this Court, Holmes's petition for writ of certiorari should be denied.

B. The Federal Circuit's exercise of jurisdiction conforms with decisions of other United States courts of appeals.

The Federal Circuit's decision to hear Vornado's appeal No. 00-1286 accords with other circuit courts' jurisdictional decisions. In *Aerojet*, the Federal Circuit pointed to instances where different circuit courts repeatedly retained jurisdiction and adjudicated a counterclaim having its own jurisdictional basis even where the circuit court had no jurisdiction over the complaint:

> *Rengo Co. v. Molins Mach. Co.*, 657 F.2d 535, 539, (3d Cir.), *cert. denied*, 454 U.S. 1055 (1981) ("a jurisdictional defect in the complaint will not preclude adjudication of a counterclaim over which the court has an independent basis [§1338] of jurisdiction"); *Pioche Mines Consol., Inc. v. Fidelity-Philadelphia Trust Co.*, 206 F.2d 336, 336-37 (9th Cir.), *cert. denied*, 346 U.S. 899 (1953) ("counterclaim persists where it is supported by an independent basis [diversity] for jurisdiction," even though complaint dismissed); *Isenberg v. Biddle*, 125 F.2d 741, 743 (D.C. Cir. 1941) (where independent jurisdictional basis [trading with enemy act] exists for counterclaim that seeks affirmative relief, "it is sustainable without regard to what happens to the original complaint").

Aerojet-General Corp., 895 F.2d at 742-3. The Federal Circuit also discussed *National Research Bureau, Inc. v. Bartholomew*, 482 F.2d 386, 389 (3d Cir. 1973), where the 3rd Circuit held that a counterclaim supported by independent jurisdiction [anti-trust] afforded the district court federal jurisdiction: "But where, as here, jurisdiction is independent, the counterclaim must be allowed to proceed without regard to the fate of the original claim, and it was error to dismiss it out of hand." *Aerojet-General Corp.*, 895 F.2d at 743.

Petitioner Holmes cites to several circuit courts of appeal cases alleging that these circuit courts support Holmes's theory that counterclaims do not change the status of a civil action as one "arising under" federal law. Yet these cases, *Metro Ford Truck Sales, Inc. v. Ford Motor Co.*, 145 F.3d 320 (5th Cir. 1998), *FDIC v. Elefant*, 790 F.2d 661 (7th Cir. 1986), and *Takeda v. Northwestern Nat'l Life Ins. Co.*, 765 F.2d 815 (9th Cir. 1985), again deal with removal jurisdiction under 28 U.S.C. §1441 and are therefore distinguished from the facts of our case. In *Metro Ford*, the 5th Circuit held that a defendant's third-party claim alleging a federal question did not bring it within purview of removability. *Metro Ford*, 145 F.3d at 326-7. In *Elefant*, the 7th Circuit also addressed the propriety of removal of a case. *Elefant*, 790 F.2d at 667. Finally, the 9th Circuit held that removability cannot created by a defendant's federal question counterclaim. *Takeda*, 765 F.2d at 822.

The Federal Circuit's jurisdiction over Vornado's appeal was in conformity with the decisions of other United States courts of appeals. Holmes's petition for writ of certiorari should therefore be denied.

II. THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT HAS FOLLOWED THE ACCEPTED AND USUAL COURSE OF JUDICIAL PROCEEDINGS

A. The Federal Circuit's exercise of jurisdiction over the appeal follows the Federal Circuit's usual course of proceeding.

The Federal Circuit exercises jurisdiction over an appeal when there is a pending, nonfrivolous patent infringement counterclaim. *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354, 1359 (Fed. Cir. 1999). In *DSC*, the Federal Circuit held "that any counterclaim raising a nonfrivolous claim of patent infringement is sufficient to support this court's appellate jurisdiction." *Id.* It is undisputed that Vornado's answer in the district court action contains a counterclaim charging Holmes with infringement of Vornado's '551 patent. Therefore, in exercising jurisdiction over the Vornado appeal, the Federal Circuit was merely following its own usual course of judicial proceeding.

In cases where the Federal Circuit found that it lacked jurisdiction to hear an appeal, the factual circumstances were significantly different from the case at hand. Specifically, the Federal Circuit will not exercise jurisdiction over non-patent claims in cases where—unlike in *this* case—patent counts have been dismissed without prejudice or otherwise permanently removed from the case *prior* to appeal of the non-patent issues. For example, in

Nilssen v. Motorola, 203 F.3d 782 (Fed. Cir. 2000), the Federal Circuit ruled that it lacked jurisdiction to hear an appeal of a judgment on state-law claims because patent law claims that had previously been in the case had been dismissed without prejudice so that those claims could be tried in a separate action. Critically, the *Nilssen* court stressed that it lacked jurisdiction *only* because the patent claims had been dismissed without prejudice:

> Had the patent claims remained in the case, we surely would have had jurisdiction to review the district court's decision on both the patent and the state law claims. . . . However, when the patent claims were dismissed without prejudice under Rule 41(b), the district court's jurisdiction over the remaining state law claims ceased to be based, either in whole or in part, on § 1338.

Nilssen, 203 F.3d at 784. In this case, by contrast, Vornado's patent infringement claim *remained pending* in the district court. Thus, following *Nilssen*, the Federal Circuit had jurisdiction to entertain this appeal.

Similarly, in *Gronholz v. Sears, Roebuck & Co.*, 836 F.2d 515 (Fed. Cir. 1987), the Federal Circuit ruled that it lacked jurisdiction to hear an appeal of a judgment on a trade secret claim because the district court had previously dismissed without prejudice a patent infringement claim that had been part of the case. The *Gronholz* court concluded that "Gronholz's dismissal of the patent claim constituted an amendment of his complaint. That amendment left a complaint with a single, non-patent claim for unfair competition." *Gronholz*, 836 F.2d at 518. The same is true of *Schwartzkopf Development Corp. v. Ti-Coating, Inc.*, 800 F.2d 240, 245 (Fed. Cir. 1986), where the Federal Circuit ruled that it lacked jurisdiction because "[w]hen the counterclaim including the § 1338 counts was dismissed on the pleadings, without opposition by the counter-claimant, it left no legacy

on which to base appellate jurisdiction in this court." Finally, in *USM Corp. v. SPS Technologies, Inc.*, 770 F.2d 1035 (Fed. Cir. 1985), the Federal Circuit held that it lacked jurisdiction to hear an appeal of judgment on non-patent issues where the patent infringement counts that originally had been part of the case had been finally resolved in an appeal to the Seventh Circuit (prior to the creation of the Federal Circuit): "[I]n the instant appeal, all § 1338 patent claims have been finally adjudicated and there is no possibility that these claims will be reopened in the ultimate resolution of this extended litigation." *USM Corp.*, 770 F.2d at 1037. This is obviously not the case here, since Vornado's patent infringement counterclaim is still pending in the district court.

Indeed, the Federal Circuit cases cited above establish conclusively that the Federal Circuit had proper jurisdiction to hear the appeal, because Vornado's patent infringement counterclaim is still pending in the district court. Therefore, the Federal Circuit was correctly following its normal procedure in exercising jurisdiction over the appeal, and Holmes's petition for writ of certiorari should be denied.

B. The Federal Circuit properly exercised jurisdiction over a partial final judgment under Fed. R. Civ. P. 54(b).

Holmes attempts to cloud the propriety of the Federal Circuit's jurisdiction by stating that even if the Federal Circuit had jurisdiction based upon a patent law counterclaim, there remains the question of whether Rule 54(b) can be used to direct an appeal to a particular circuit. Holmes erroneously relies on *Denbicare U.S.A. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996) for the principle that parties may not "forum-shop" between the Federal Circuit and other regional circuit courts for appeal. Holmes, however, materially misstates the holding of *Denbicare*. The Ninth Circuit ruled in *Denbicare* that an appeal of non-patent

claims did not fall within the Federal Circuit's exclusive jurisdiction when those claims had been *dismissed* before the Rule 54(b) judgment and appeal on the non-patent claims:

> Because the district court both *dismissed all patent claims from this case* and separated its decision on the merits of the nonpatent claims through the grant of a partial final judgment under Rule 54(b), [the Ninth Circuit has] appellate jurisdiction over the partial final judgment.

84 F.3d at 1148 (9th Cir. 1996) (emphasis supplied). Holmes misleadingly omits the Ninth Circuit's express statement that its decision hinged on the patent claims having been *dismissed* prior to the appeal—a circumstance that does not exist in this case.[4] In this case Vornado asserted both patent and trade dress claims against Holmes, and the International Trade Commission initiated an investigation. Vornado's district court patent counterclaim to Holmes's later filed district court action was still pending during the appeal to the Federal Circuit. The Federal Circuit, therefore, was wholly within the bounds of Rule 54(b) in exercising jurisdiction over the appeal.

C. The Federal Circuit follows the "well-pleaded complaint" rule and the intent of Congress.

Although Holmes contends throughout its petition that the Federal Circuit has recklessly disregarded the well-

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[4] In *Atari, Inc. v. JS&A Group, Inc.*, 747 F.2d 1422, 1434 (Fed. Cir. 1984) (*en banc*) the Federal Circuit reviewed the Senate Report language that Holmes quotes at page 15 of its brief and squarely rejected the argument that mere separation of the trial or appeal of patent and non-patent issues in a case deprives this Court of jurisdiction over the non-patent issues. Where, as here, the patent claim is not a "trivial patent claim . . . manipulatively joined to gain the jurisdiction of the court" a Rule 54(b) judgment does not strip the Federal Circuit of jurisdiction over the non-patent issues. *Id.*

pleaded complaint rule, the Federal Circuit's commentary in *Aerojet* shows that it has carefully considered this rule. Further, the Federal Circuit has thoughtfully concluded, *in light of* the well-pleaded complaint rule and the words of Congress, that a non-frivolous counterclaim for patent infringement invokes its jurisdiction.

Petitioner's argument that the Federal Circuit has an "aberrant" interpretation of the well-pleaded complaint rule rests on semantics by focusing on the word "complaint" in the phrase "well-pleaded *complaint* rule." The Federal Circuit, however, provided sound reasoning regarding the importance of relying on substance rather than semantics: "It would seem at best incongruous to hold that we have appellate jurisdiction when a well-pleaded patent infringement claim is the basis of a pleading labeled 'complaint' but not when the identical well-pleaded claim is the basis of a pleading labeled 'counterclaim.'" *Aerojet-General Corp.*, 895 F.2d at 742. The Federal Circuit acknowledges that the distinction between complaints and counterclaims may be important in other contexts (such as removal), but such a distinction has "no meaningful role in governing the direction of the appeal under the unique statute that created this court. . . ." *Id.*

The Federal Circuit has also looked to this Court's jurisdictional decisions employing the "well-pleaded complaint rule" and found that this Court's focus on the rule was particularly appropriate in *Christianson*, where there was *no counterclaim* arising under a federal patent statute. *Id.* at 741.

In *Aerojet*, after careful analysis of whether the well-pleaded complaint rule applied, the Federal Circuit specifically found no conflict between a proper application of the well-pleaded complaint rule and a holding that it had appellate jurisdiction when a nonfrivolous well-pleaded compulsory patent law counterclaim is present in a case originally and properly filed in a district court. *Id.*

The Federal Circuit believed it was well within accepted judicial procedure, as mandated by Congress and this Court in exercising jurisdiction over the Vornado appeal, where patent infringement counterclaims were still pending. The Federal Circuit opined that "using the ramifications of the well-pleaded complaint rule to limit our appellate jurisdiction in every case by an exclusive focus on the complaint and a compelled disregard of compulsory counterclaims for patent infringement, would disserve the intent of Congress in creating this court."[5] *Id.* at 744. The Vornado appeal No. 00-1282 contains precisely the non-frivolous, compulsory patent counterclaim that the Federal Circuit carefully reasoned should render an appeal to be subject to its jurisdiction.

[5] "This court is charged with the duty of increasing doctrinal stability in the field of patent law." *Chemical Engineering Corp v. Marlo, Inc.*, 754 F.2d 331, 333 (Fed. Cir. 1984) (construing S.Rep. No. 97-275, 97th Cong., 2d Sess. 2-7, *reprinted in* 1982 U.S.Code Cong. & Ad.News 11, 12-17).

CONCLUSION

For the reasons set forth above, Petitioner's writ of certiorari should be denied.

Respectfully submitted,

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